

Los Angeles County
Children's Planning Council
Improving Children's Lives

September 6, 2005

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

**APPROVAL TO CONTINUE FUNDING THE EITC CAMPAIGN
FOR FISCAL YEAR 05-06.
(ALL DISTRICTS) (3 VOTES)**

IT IS RECOMMENDED THAT OUR BOARD:

1. Approve continued funding for the EITC Campaign through the 2006 tax season, in the amount of \$250,000. This recommendation will be funded exclusively through preserved - Net County Cost (NCC) funding resulting from utilizing Performance Incentives (PI) instead of NCC in FY 2002 - 03.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

On September 21, 2004, our Board adopted a motion and approved \$250,000 in Performance Incentives-Net County Cost funding for the Earned Income Tax Credit Campaign for the 2004-05 tax season. The goal of the Campaign was to increase the amount of families claiming the EITC throughout Los Angeles County by 20,000. The motion also directed the Executive Director of the Children's Planning Council to report back to the Board by July 15, 2005 on the results of the 2005 tax season campaign along with a recommendation regarding the remaining \$250,000 to continue the campaign through the 2006 tax season, which has been recommended through the CalWORKs Funding Recommendations Stakeholders Process.

During the Board's consideration of this request, Supervisor Molina made the following statement:

"The Earned Income Tax Credit (EITC) is the most powerful mechanism for boosting the earnings of low-income working families. Nationally, more than \$34 billion in EITC benefits were claimed in 2002. In Los Angeles County, 804,628 households claimed \$1.44 billion in EITC benefits last year. However, an estimated 78,000 eligible families with children failed to claim over \$111 million in EITC benefits last year as well."

The results of the County's investment in the 04-05 EITC Campaign, which included outreach and public awareness, support of the EITC Hotline and Website, capacity building of the Volunteer Income Tax Assistance (VITA) sites, and staff support to the EITC Campaign Partnership, helped us surpass the performance targets we set in 2004. While we do not yet have the final IRS data to determine how well we met overall goal of increasing by 20,000 the number of families that file and claim the EITC (see Attachment A – Letter from the IRS), we can report on the success of our performance targets:

- Reached over 1.5 million individuals through our outreach and training (target was 38,400);
- Reached over 1.2 million individuals through DPSS mailings (target was 741,000). In addition DPSS made a total of 936,000 contacts with clients about EITC;
- Reached over 5.5 million individuals through our TV and print media campaign (target was 661,000);
- Received 15,186 calls through the EITC Hotline (target was 15,000 calls);
- Increased the number of tax filings through the VITA sites to 29,145 (target was 13,200);
- Leveraged \$40,000 through United Way for Individual Development Account (IDA) - matched savings program;
- Provided fifteen (15) technical assistance grants to community-based organizations and nonprofits for EITC outreach and VITA capacity building;
- Provided technical support to over 25 VITA sites, including E-File transmission support;
- E-filed 75% of total returns at county supported sites;
- Maintained and upgraded the EITC Campaign website; and
- Opened 15 bank accounts for VITA taxpayers on-site.

In addition, through the County's investment and the dedicated work of the EITC Campaign Partnership staffed by CPC, the following was accomplished:

- Capacity-building grants to ten VITA sites (8 at \$5,000 and 2 at \$2,500) allowed VITA sites to target and inform hard-to reach communities (particularly monolingual, ethnic communities) throughout the County, along with various local unions and organizations on EITC, Child Tax Credit (CTC), and other asset-building programs. The VITA grants allowed organizations to purchase equipment and software to enable E-filing capabilities and hire site coordinators

and part-time staff to conduct tax preparation services. The grants also allowed the grantees to hire part-time personnel to conduct basic EITC orientations and pass out fliers and campaign information, which included the hotline number, EITC facts and VITA hours, locations, and hours of operation.

- Outreach and public awareness efforts expanded through our continued partnership with the MTA and the media. With the assistance of Supervisor Yvonne Burke and Supervisor Don Knabe, bilingual tear-off ads were placed on all 2,000 MTA buses. Additionally, 1.5 million brochures were distributed throughout the county for EITC outreach, along with 20 VITA site banners, and 20 EITC display posters that were created to assist the VITA sites in increasing their visibility in the community.
- On February 4, 2005, the EITC Campaign Partnership launched its first of eight countywide press conferences, which were attended by various government and elected officials, corporate executives, and local residents. Moreover, various media outlets such as KNX, Univision, KCAL 9, and CBS covered and aired news reports of these events. In an effort to further support the countywide EITC efforts, the Partnership created PSA's and distributed them to various media networks including local city cable channels.
- The Partnership created a mobile tax team to support the VITA sites. This tax team is comprised of volunteers who are on-call to assist VITA site coordinators that may not have enough volunteers to handle their volume on a particular day.
- The EITC Campaign began expanding its focus by including financial education and asset building strategies through its strategic partnership with United Way of Greater Los Angeles and Citibank. This partnership included free financial literacy classes and matched savings fund accounts (IDAs). The intention of this pilot program was to offer low and moderate-income taxpayers access to affordable banking and asset accumulation through budgeting practices, investments, and homeownership and/or business ownership possibilities.

For additional information on the EITC Campaign Partnership's collaborative work, please see Attachment B.

EITC Investment in FY 05-06

The County's investment of \$250,000 in funding for the 2005 tax season will continue to carry out the EITC Campaign in Los Angeles County. Our goal will be to increase by 10% last season's performance targets. Under the direction of the Children's Planning Council, the EITC Campaign Partnership will seek to further increase the visibility of EITC in low to moderate-income communities throughout the County, through a coordinated outreach effort. Moreover, the Partnership will seek to build on our EITC

efforts by broadening the scope toward a more comprehensive family economic success strategy, which includes financial education, affordable banking, and Individual Development Accounts (IDAs). The Children's Planning Council will work to leverage the County's investment to secure additional private and public sector dollars to support a Family Economic Success agenda – a key recommendation in the 2005 Children's ScoreCard. This agenda will be pursued in partnership with the CAO and with the existing EITC Campaign Partnership (see Attachment C).

IMPLEMENTATION OF STRATEGIC PLAN GOALS

These recommendations contribute to the achievement of County Strategic Plan Goal 5: Children and Families' Well-Being.

FISCAL IMPACT/FINANCING

On September 21, 2004, the Board of Supervisors approved \$250,000 in Performance Incentives-Net County Cost funding for the Earned Income Tax Credit Campaign for the 2004-05 tax season. Additionally, the recommendation also called for an additional \$250,000 for the 2005-06 tax season to continue the Earned Income Tax Credit Campaign, pending a progress report from the Executive Director of the Children's Planning Council. The Children's Planning Council will be responsible for implementing the recommendations and will include a program budget and implementation plans to submit to the Board.

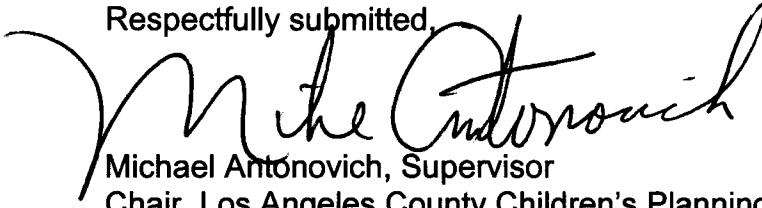
Although we cannot yet estimate the return on investment from the County's 04-05 allocation of \$250,000 (IRS data is expected to be available after September 30, 2005; a report with this information will be submitted to the Board immediately once those numbers are available), for every 20,000 families that file and claim the EITC, the fiscal impact is \$12 per family, with an average EITC benefit of \$1400. This equals \$116 in benefits for each dollar spent.

IMPACT ON CURRENT SERVICES

The EITC Campaign and the work of the Campaign Partnership will help to achieve *Economic Well-Being*, one of the County's five outcomes for children and families. Specifically, the earned income tax refund helps to move families above the Federal Poverty Threshold, and serves as a starting point to help families increase their assets, including the purchase of a first home, paying off debt, or saving for their children's education. Families who increase their assets and wealth are more likely to be self sufficient and be less dependent on government (Attachment D).

The Honorable Board of Supervisors
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Respectfully submitted,

A handwritten signature in black ink, reading "Mike Antonovich". The signature is fluid and cursive, with the first name "Mike" written in a more abbreviated, stylized manner.

Michael Antonovich, Supervisor
Chair, Los Angeles County Children's Planning Council

cc: Chief Administrative Officer
County Counsel
Commission for Public Social Services
Director, Department of Public Social Services

Attachments



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
LOS ANGELES, CA 90012

WAGE AND INVESTMENT DIVISION

August 30, 2005

Yolie Flores Aguilar
Executive Director, Children's Planning Council
500 W. Temple
Los Angeles, CA 90012

Dear Mrs. Flores Aguilar,

This is to inform you of a delay in obtaining the EITC Return Database for Tax Year 2004 (which covers tax filings in 2005). We anticipate data being available after September 30th. We apologize for any inconvenience this may cause.

Sincerely,

A handwritten signature in cursive script, appearing to read "Stella W. Lee".

Stella W. Lee
Territory Manager
Stakeholder Partnerships, Education & Communication

EITC Campaign Partnership
EITC CAMPAIGN PARTNERSHIP GOALS AND STRATEGY

The EITC Campaign is managed by several committees, which strategize and help to carry out the day-to-day and strategic operations of the Partnership. Those committees are identified as follows:

Executive Committee

Oversee management of program, including fiscal oversight and program goals and services.

VITA (Volunteer Income Tax Assistance Sites)

Standardize VITA operations within Los Angeles County and assist sites with e-filing tax transmission and volunteerism.

Financial Education & Asset Building

Provide financial education courses and affordable banking to VITA clients and general population to promote financial accountability. Also provide access to Individual Development Account (IDA) program as well as micro-enterprise training and other asset-building programs, to VITA clients and other low to moderate-income working individuals and families throughout Los Angeles County

Government & Corporate Relations

Promote Advanced EITC and EITC to government and corporate entities. Educate institutions in fiscal impact of the Earned Income Credit on the local economy

Marketing & Media Relations

Promote the Earned Income Tax Credit, Child Tax credit and VITA programs. Develop marketing strategies for Los Angeles County

Additionally, the EITC Campaign Partnership intends on implementing the following strategies for the upcoming 2005-06 tax season:

- Complete an EITC and Volunteer reception to thank the member organizations as well as volunteers and supporters for their efforts and participation.
- In June, the Government and Corporations committee will be hosting an event for business owners and HR professionals to present Advanced EITC as a no-cost benefit to both the workplace and employees. Moreover, this committee will be teaming with Board of Equalization Chairman John Chiang's office to further promote EITC and AEITC.

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- Along with the volunteer appreciation event, this summer the VITA committee will also begin volunteer orientations and recruitment for next year's tax season. Moreover, this committee will be assisting the IRS with EITC filings taking place after the April 15th tax deadline. Additionally, this committee will also work with the IRS to set training guidelines for our VITA volunteers.
 - The Financial Education & Asset Building committee will continue to host and offer the financial education courses and will work with the Asset Building committee to offer those who successfully complete the program the opportunity to enter into the IDA or micro-enterprise programs.
 - The Marketing and Media committee will begin preparing a web based toolkit that will be available on the EITC website for any organization attempting to offer EITC and VITA services. Additionally, PSA's, radio partnerships and the implementation of other marketing strategies will take place this summer in preparation for the upcoming tax season.
 - The Partnership intends on expanding on the VITA and EITC grants offered next tax season to further increase capacity building and the ability for organization's to compete against commercial taxpayers and predatory lenders.

EITC Campaign Partnership Family Economic Success Strategy & Implementation

In an effort to improve the economic well-being of low-to-moderate income families in Los Angeles County, the Children's Planning Council's (CPC) *2004 Children's Scorecard* recommended that the CPC develop a Family Economic Success Plan for Los Angeles County.

There are 67 organizations providing Family Economic Support, or asset-building programs currently operating in Los Angeles County. However, there is no coordination or collaboration amongst the agencies. Organizations are often working in isolation, and struggle to obtain the necessary financial resources to sustain outreach efforts and program administration. The current economic environment in the County, particularly the rapidly escalating cost of housing, also complicates the work of Family Economic Support programs. Moreover, the majority of organizations in Los Angeles County lack a formal system to evaluate whether their programs have a positive impact on the financial realities of their clients.

Understanding the charge of the CPC and the reach of its mission, the EITC Campaign Partnership (Partnership) has refocused its mission to develop a Family Economic Success Plan for Los Angeles County. This plan includes the following strategies:

- Spearheading the formation of a collaborative among key stakeholders (i.e. County service agencies, non-profit service providers, financial institutions, etc.) and constructing a framework for a Family Economic Success Program in Los Angeles County.
- Sponsoring the development of an evaluative system that moves service providers from a "focus" on output measures to actual outcome measures.
- Supporting policy initiatives/legislation that promote and/or expand asset-building programs.

The Children's Planning Council has focused the countywide discussion about children, youth, and families around five long-term outcome areas adopted by the County Board of Supervisors in 1993:

- **Outcome 1:** Good Health
- **Outcome 2:** Safety and Survival
- **Outcome 3:** Economic Well-Being
- **Outcome 4:** Social and Emotional Well-Being
- **Outcome 5:** Academic Achievement and Workforce Readiness

While the County has made progress toward improving conditions for children, youth, and families in the above outcome areas, the Council's *2004 Children's Scorecard* indicates that overall conditions for children of color, particularly African-American and Latino children, remain lacking. African-American and Latino children represent 13.8 percent and 72.4 percent

of children in poverty, respectively. The Self-Sufficiency Standard for California, calculated by the National Economic Development and Law Center, indicates that a family in Los Angeles County with two adults and two children (one preschooler and one school-age child) need an annual family income of \$48,590 to be meet their basic needs, an amount that is almost three times greater than the poverty level, and significantly higher than the median income for families with children in many Los Angeles communities.

Another measure of economic security, homeownership, indicates that 54 percent of the County's families with children are renters. The *Scorecard* notes that prospective homebuyers needed an income of \$102,500, and a 10 percent down payment, to purchase a median-priced home in the Los Angeles in 2003. The median home price in Los Angeles County has risen 22.2 percent between February 2004 and February 2005 from \$360,065 to \$440,000, indicating that chances for homeownership are becoming increasingly slim for most families.

Financial Education

Building financial literacy, the knowledge of money management concepts and skills needed in today's economy, is necessary for reducing poverty in low-income families. It includes the ability to balance a checkbook, manage a credit card account, prepare a personal budget, buy insurance, take out a loan, and, as previously mentioned, save. In addition to the basic knowledge about daily money management, financial literacy programs are needed to help low-income families develop strategies that enable them to use their financial assets for future benefit, such as education or retirement.

Financial literacy is increasingly seen as a necessary condition for reducing poverty in low-income neighborhoods by ensuring that families get the knowledge and ability to build assets effectively and to avoid being exploited by aggressively marketed financial products. Research indicates that middle and low-income families are much less likely to feel that they are saving enough for the future, but are also much more likely to want information about topics such as developing a financial plan, reducing debt, and building an emergency fund.

The Earned Income Tax Credit and the Child Tax Credit:

As previously mentioned, the County has already made significant headway in expanding utilization of the EITC. The Partnership is seeking to integrate that marketing and outreach campaign with a similar campaign for the Child Tax Credit, which can be claimed for children under the age of 17 for amounts between \$500 and \$1,000. The EITC Campaign Partnership along with the Children's Planning Council believe that these funds can be leveraged to promote the use of EITC returns for assets such as postsecondary education or improved credit. This strategy was introduced as a pilot program during the 2004-05 tax season and was greatly supported and utilized by many low and moderate-income families who wished to purchase a home, save for their children's education or obtain a budget to pay off debt. Coupled with a concerted effort to encourage families to save, the income generated by the Earned Income Tax Credit and the Child Tax Credit is an important tool for building assets.

Establishment of Savings and Retirement Accounts:

Encouraging low-income families to start bank accounts, a phenomenon known as “banking the unbanked,” is of great importance because “one’s banking status has profound implications for long-term family self-sufficiency” (Stegman 2001, Annie E. Casey Foundation 2002, Boshara, et al 1998). Research has shown that 20 percent of American households, including 45 percent of African-American households, do not have a transactions banking account. At the same time, research has shown that a statistically significant association between holding a transactions account and increased likelihood of owning other forms of wealth, such as a home.

The building of assets begins the process of truly helping families to achieve self-sufficiency. The combination of improved knowledge through financial literacy instruction and the building of assets through transaction accounts allow low-income people to repair their credit histories and build access to lower-cost credit.

The most common program aimed at encouraging low-income people to enter the financial mainstream is that of individual development accounts, or IDAs. These accounts are earnings bearing, tax-benefited accounts restricted to designated purposes. Currently, the Partnership, under the direction of the Children's Planning Council, has partnered with The United Way to offer this matching savings account to low and moderate-income Los Angeles County residents who have successfully completed the financial education courses.

Funds in IDAs can be withdrawn for postsecondary education, first-time homeownership, or capitalization of a business, and in some cases, home repair, purchase of a vehicle, or for training program expenses. IDAs are intended to encourage people to save rather than consume — a fundamental shift in thinking about economic self-sufficiency in the United States.

Access to Credit

Because low-income households struggle to have sufficient funds to meet their day-to-day needs, many need short-term credit especially when unexpected expenses arise. Studies on the uses of funds obtained by low-to-moderate income individuals from payday lenders indicate that the money is often used to meet immediate needs like car repairs, emergency medical expenses, utility and heating bills and security deposits for lease contracts. Many banks and credit unions prefer for cost reasons not to underwrite the small, short-term loans that low-income customers require (Richter & Tan 2002). As a result, low-income people become the target of the “fringe banking” institutions. As such, during the 2004-05 tax season, the Partnership introduced low to moderate-income families Los Angeles County to mainstream financial institutions that offer free checking accounts and other banking services. In many instances, these accounts were set up during a VITA site visit in which the EITC refund was directly deposited into the customer’s bank account, free of charge.

Advanced EITC & Qualification Requirements

The Advance Earned Income Tax Credit (Advanced EITC or AEITC) that gives employees the benefit of increased take home pay at virtually no cost to employers. Employees can get extra money in their paychecks rather than having to wait until they file their tax return. The Advanced EITC allows certain taxpayers to receive their EITC in installments throughout the year, instead of a lump sum during the following filing season. The credit will appear in each paycheck, equally dispersed throughout the year. Employees taking home larger paychecks are more likely to be able to cover day-to-day expenses and are less likely to miss work.

For many workers, getting part of their EITC in each paycheck can make a difference in paying the rent, buying groceries, and meeting other day-to-day needs. A worker earning between \$490 and \$1,000 a month, for example, can get about \$60 extra in each bi-weekly paycheck. Employers also benefit from promoting advance EITC payments--they can help employees increase their take-home pay at no cost to the business. This can decrease turnover in the workplace.

The taxpayer, his or her spouse (if filing jointly) and any qualifying child listed on Schedule EIC must have valid SSNs issued by the Social Security Administration.

- If a SSN was obtained solely to receive federally funded health benefits, such as food stamps, it is not valid for EITC purposes. The Social Security card will generally say NOT VALID FOR EMPLOYMENT.

If the taxpayer and his or her spouse (if filing jointly) have an individual taxpayer identification number (ITIN), they cannot get any EITC.

The most recent study of EITC claims found that between 27 percent and 32 percent were erroneous. Though the IRS has implemented several legal and administrative changes to address the high erroneous payment rate since that time, they believe the error rate is still significant. One of the most common errors taxpayers claiming the EITC make is incorrectly claiming a qualifying child. Therefore, the IRS is testing a new approach to reduce this type of error.

The 2005 EITC Qualifying Children (QC) residency certification test requires selected taxpayers to show that the child(ren) they are claiming for the purposes of EITC lived with them in the United States for more than half the tax year. Taxpayers in the test should complete and return their documentation as soon as possible to avoid potential delays in receiving the EITC portion of their refund.

The goal of the 2005 certification test is to evaluate the potential for a certification requirement to help the IRS maximize participation by eligible taxpayers and minimize the number of claims paid in error.

EITC Campaign Partnership EITC Facts & Statistics

An article in the magazine *New Federalism* by the Urban Institute stated, “Across racial and ethnic groups, significantly larger portions of people who get help preparing their return receive the EITC than those who do not get help.” Additionally, the article added, “Low-income parents who turn to paid preparers receive less net benefit from the EITC because they pay to have their returns prepared.” However, according to the Tax Policy Center, EITC lifted an estimated 4.9 million people out of poverty in 2002. Last year, more than 21 million taxpayers collected more than \$36 billion in EITC payments.

The Earned Income Tax Credit is a refundable federal income tax credit for low-income working individuals and families. Congress originally approved the tax credit legislation in 1975 in part to offset the burden of social security taxes and to provide an incentive to work. Initial estimates for 2004 show approximately 22 million low-income families received about \$38 billion.

Almost 30 percent of California’s working families with children had incomes below 200 percent of the federal poverty level in 2002, when the poverty level for a family of four was \$18,392. The comparable figure for similar families elsewhere in the United States was about 25 percent. The vast majority of low-income California families were working families in 2002. More than nine out of 10 families with incomes between 100% and 200% of the federal poverty level included adults with significant work effort over the previous year. Almost half (45.8 percent) of California’s families with children and incomes below 200% of the federal poverty level included married parents. For the rest of the United States, that figure was 34.4%.

EITC provides a wage subsidy of 40 cents for each dollar a family with two or more children earns until their income reaches \$10,510. Married parents can receive the maximum subsidy until their earnings reach \$14,730. After that, the subsidy decreases by about 21 cents for each additional dollar earned until no more credit is available. For a single parent of two children, the maximum credit nears the poverty level (\$14,824) and phases out after income reaches 200 percent of the federal poverty level.

Additionally, only a small portion (27.1%) of low-income Hispanic parents know about the EITC – significantly less than their peers of other races and races and ethnicities. A smaller portion of Black, non-Hispanic parents report knowing about the EITC than other non-Hispanic parents, but the gap is much smaller (68.0% versus 73.5%).

Program Overview and Accomplishments

The following highlights a few of the accomplishments made by the EITC Campaign Partnership during this past 2004-05 tax season:

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- Created a functional network of partners and an infrastructure to assist and educate the lower and moderate-income families of Los Angeles county
 - Established itself as a national model for the EITC program and developed lessons learned and new programs to expand during the 2005-06 tax season
 - Partnered with United Way and Citibank to launch asset building campaign as a pilot program
 - E-filed 75% of total returns
 - Opened bank accounts on-site
 - Created traveling tax support team, to assist site coordinators with tax preparation services
 - Hosted eight (8) press events w/elected officials
 - Provided technical support to over 25 VITA sites
 - Provided e-file transmission support
 - Streamlined VITA volunteer training

Additionally, the EITC Campaign Partnership utilized Volunteer Income Tax Assistance (VITA) sites to accomplish the following goals:

- Provide free tax preparation assistance for those low to moderate-income families who qualify, rather than have them pay for similar services or excessive fees associated with “rapid refund” or “refund anticipation loans;”
- Increase tax filings;
- Provide education on asset building programs and strategies to build wealth, such as individual development accounts (IDAs), which provide matching funds, affordable banking and other financial literacy programs;
- Encourage work, asset-building and savings for low-income families and;
- Connect with ethnic communities to increase their knowledge and utilization of available resources, while providing services in 8 languages.